The Churchill Corporation

1988 Annual Report

Corporate Profile

The Churchill Corporation is a diversified investment and holding company with assets in excess of $100,000,000 and shareholders' equity approaching $40,000,000. Its principal business activities are Construction, Corporate Investments and Real Estate.

The Churchill Corporation was formed in Edmonton in 1981, principally as a real estate development company. In 1984 the Company began to diversify by making minority equity investments in businesses having strong management and a need for expansion capital. By 1987 Churchill had developed substantial expertise in mergers and acquisitions.

A significant strategic re-orientation was begun in 1988. The year-end acquisition of the Stuart Olson Construction Group is part of an evolution towards The Churchill Corporation becoming an industrial management company that is destined to be a significant force in the business community of Alberta and Western Canada.

The Class "A" Common Shares of The Churchill Corporation (13 million shares outstanding) are listed for trading on the Alberta Stock Exchange.

Financial Highlights

	1988	1987
Revenue	$ 8,804,833	$ 4,110,225
Net Income	1,377,628	1,004,699
Total Assets	107,182,822	41,892,849
Total Liabilities	67,661,687	11,879,607
Total Equity	39,521,135	30,013,242
Debt/Equity Ratio	1.7:1	0.4:1
Net Income Per Common Share	$0.09	$0.11
Equity Per Common Share	$2.66	$2.58
Common Shares Outstanding	12,996,861	9,324,607

President's Report

The year-end acquisition of the Stuart Olson Group marked the beginning of major changes for your Company. As newly appointed President, it is a great pleasure to present our 1988 Annual Report to Shareholders.

Net income of $1,377,628 for 1988 improved upon the 1987 result of $1,004,699. Net book value per common share closed the year at $2.66. The assets of the Company have increased 155% to $107,182,822 and shareholders' equity has been increased by 31% to the current level of $39,521,135.

In the Real Estate Division, Plaza 97 was completed and then sold at a profit. Other commercial real estate projects progressed well. During the past year Churchill acquired a significant stake in Lewis Estates – a long term residential land development project west of Edmonton that will create almost two thousand single family lots.

With its dominant position in the Canadian market, Marlin Travel is expected to set new sales and profitability records again in the current fiscal year. Significant effort was contributed to several other of our affiliated companies which are experiencing improving financial performance as they realize on expansion initiatives undertaken in the past several years.

Churchill has been undergoing a dramatic strategic shift – from real estate investment, to passive corporate investment, to active corporate management.

Back (L to R)
Ernie Stevens
Dick Innes
John Boyko
Emile Beaudry
Front (L to R)
Gary Campbell
Al Olson
Jim Devaney

We are becoming a proactive industrial management company that will be a significant force in the business community of Western Canada. Expanding and diversifying mainly through acquisition, we will become important stakeholders in each of our affiliated companies. Significant influence will be provided by helping these companies determine and commit to their own strategic directions and by assisting them through planning and financing to achieve success.

As we become a significantly larger and better company, Churchill will continue to strive for excellence in everything it does. Management at Churchill and its affiliates will be made up of people who embrace change rather than fear change. Subsequent to year-end John Boyko and Jim Devaney, two of the senior people from Stuart Olson, joined Ernie Stevens, Dick Innes and Emile Beaudry as Vice Presidents of the Company. The teamwork of these people and their emphasis on renewal will be cornerstones of the Churchill we are building for the future.

Several of our Directors are not standing for re-election. We thank them for sharing their wisdom and providing guidance. Most notably, we thank Gary Campbell who has led Churchill since its founding. His strong leadership, commitment to success and his personal dedication have seen the Company bridge difficult economic times while creating a solid foundation for the future.

Your Board of Directors and management team are committed to and believe in the prospects for Western Canada. The emerging industrial opportunities in Northern Alberta are especially positive developments. We believe that the creation of a critical mass of managerial and financial resources, as accomplished by Churchill in the past several years, will prove to be a strong foundation for building future successes.

Allan S. Olson
President and
Chief Executive Officer

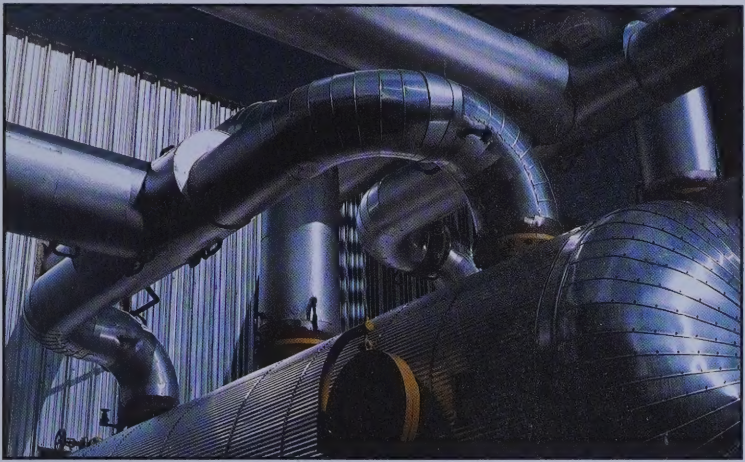
March 22, 1989

Construction Group

The major company in the Construction Group is **Stuart Olson Construction**. It is noteworthy that this company will celebrate its fiftieth year in business during 1989. Founded as a small general contracting partnership, the company has become one of the largest general contracting organizations in Canada. Since the early 1980s the company has been committed to growth through geographic expansion and diversification. By 1980 Stuart Olson was active in Saskatoon, Edmonton, Calgary and Vancouver and was a major shareholder in the diverse companies that form the Construction Group.

Stuart Olson Construction is a builder — a quality builder. It is tremendously diverse in the range of construction projects that it has the capability to undertake. Supported by a great management team in each of its branch locations, Stuart Olson has the technical capability, financial capacity, and construction management ability to take on virtually any kind of construction project that exists in Western Canada. Ever committed to a "quality first" approach, the company has successfully executed projects throughout the West and in Canada's North. Stuart Olson builds bridges, water and sewage treatment plants, rapid transit systems, commercial office buildings, major retail developments, specialty buildings for the food and beverage industry, major institutional buildings, and office and store interiors. It would be easier to identify what Stuart Olson doesn't build. The hundreds of people that proudly work for this great construction organization are all committed to teamwork. They are committed to serving the needs of their customers and delivering their projects on time and on budget.

The Lodge at Kananaskis, Alberta



Industrial insulation installed by Fuller Austin

Fuller Austin Insulation Inc. is an industrial and commercial insulation contractor and one of the leading insulation specialists in Canada. The company also distributes a wide range of industrial insulation products to service the resource and process industries of Western Canada. Fuller Austin is one of the leaders in the field of asbestos removal.

Northern Industrial Insulation Contractors Inc. is a commercial and industrial insulation contractor. Operating from its head office in Edmonton, Northern serves niche markets in Alberta and British Columbia.

Maran Equipment Ltd. is one of the leading construction equipment distributors in Alberta. Such well-known lines as the Melroe Bobcat, Kubota Tractor and the J.C.B. line of excavators are handled exclusively by Maran. With head office in Edmonton, the company also has a branch operation in Calgary.

Lafrentz Road Services Ltd. is one of Canada's leading manufacturers and applicators of thermally-applied highway lane marking systems. Its large fleet of mobile equipment is used to paint highway lines and to mark airport runways throughout Western Canada and Southwestern Ontario.

Cameron-McIndoo Interiors Limited is a Toronto-based office and retail interior construction company. A dominant force in the Toronto market, CMI has developed the interior environments for many of Canada's leading corporations and retail businesses.

Blu's Women's Wear in Manulife Place, Edmonton

Wye Road Safeway in Sherwood Park

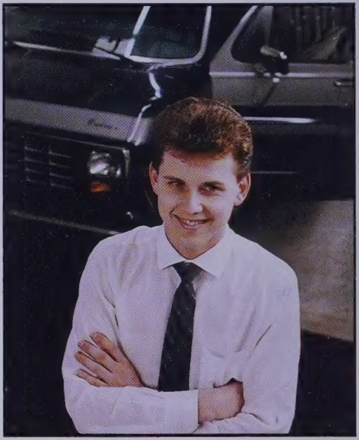
Corporate Investments

The main thrust of holdings in the Corporate Investments Division was to acquire minority equity positions in businesses having strong management and a need for expansion capital. Churchill's financial involvement, along with the expertise of its management team and its network of business contacts, can add considerable value to the affairs of investee companies. The principal business areas of Churchill's investee companies are described below. Investments made pursuant to the Small Business Equity Corporations Act (Alberta) are marked with an asterisk (*).

ACT Computer Services Ltd.* replaces or augments the in-house data processing groups of corporate or government clients. They also develop and market mainframe and minicomputer-based application software around the world.

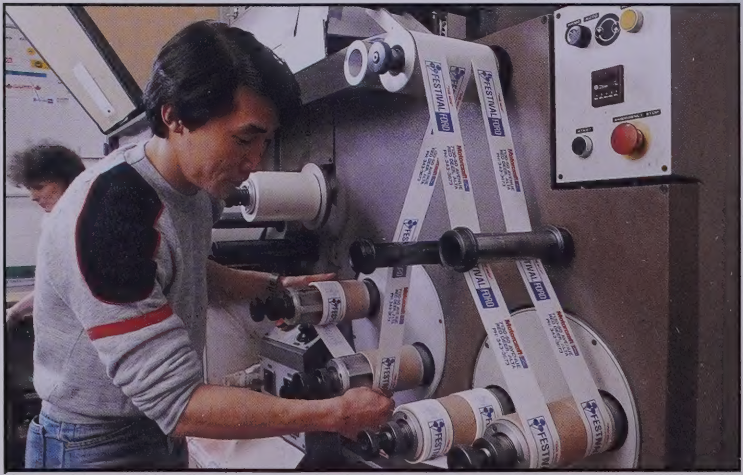
Brown's Paper Products Ltd.* does business as Shippers' Supply. It distributes and manufactures a broad range of warehouse supplies and materials handling equipment.

Denny Andrews Ford Sales Inc. has become a well-established automotive dealership in just two years. Its location in West Edmonton has provided a market area that includes much of Northern Alberta.



Gordon Rudko of North American Coach

Custom printing of packaging tape by Shippers' Supply



Elcor Elevator Services Corporation* provides construction, maintenance and repair services for all makes of elevators and escalators for commercial and residential buildings. It has operations based in Edmonton and Calgary.

Hughes-Alta Oilfield Services Inc.* manufactures and services downhole tools from its facilities in Nisku, Alberta. It has achieved strong market share despite low demand in the industry.

Krahns' Homemade Style Dressings Ltd.* produces preservative-free salad dressings that are merchandised in the produce section of supermarkets. The company is endeavoring to expand its geographic market base.

The Marlin Travel Group Ltd. is becoming a dominant player among Canadian travel agents. The company has grown from less than $100,000,000 in travel bookings in 1985 to over $500,000,000 in its current fiscal year. It now has 120 branches across Canada.

Mayfield Twin Arenas and Fitness Centre Ltd.* is recognized as one of the finest venues for oldtimers' hockey in Alberta.

North American Coach Inc.* is a specialty automotive manufacturer based in Edmonton. Its growth is based on the recognition that passenger vans have taken the place of the large car of yesteryear.

Russell Technologies Inc.* is a specialist in non-destructive testing of pipes and tubes. It has become internationally known for its versatility in utilizing a variety of technologies.

Marlin Travel retail outlet at Eaton Centre, Edmonton

SPURT Investment Fund I is a technology-oriented seed capital partnership managed by Alta-Can Telecom Inc. of Calgary.

Tower Aircraft Hardware Inc.* is an international distributor of heavy jet aircraft components. Airline deregulation and an aging transport fleet have created a unique opportunity to benefit from dynamically restructuring industries.

Sampling of parts handled by Tower Aircraft Hardware

Western Crude Processors Ltd. is in the oilfield waste management business with plants in Swan Hills and Mitsue, Alberta.

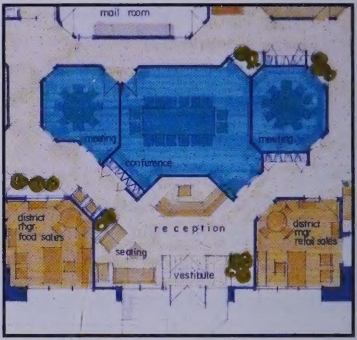
Churchill's involvement in a broad range of industry groups and geographic areas has provided diversification to its asset mix. Notwithstanding Churchill's strategic reorientation toward majority investments in larger businesses, the Corporate Investments portfolio has excellent potential for contributing to Churchill's ongoing profitability. Follow-on investments by Churchill in its affiliated companies are considered on the basis of the merits of the situation and the strength of the management group.

Real Estate Division

The Real Estate Division has continued its program of maintaining and enhancing the value of The Churchill Corporation's real estate holdings. Properties are selected from the portfolio for development to maximize value prior to disposition. The Churchill Corporation stresses superior quality in the construction of its projects.

The Company has established a reputation for creativity and versatility in its approach to development. Several properties were the subject of considerable activity during 1988 or are currently in varying stages of active transition.

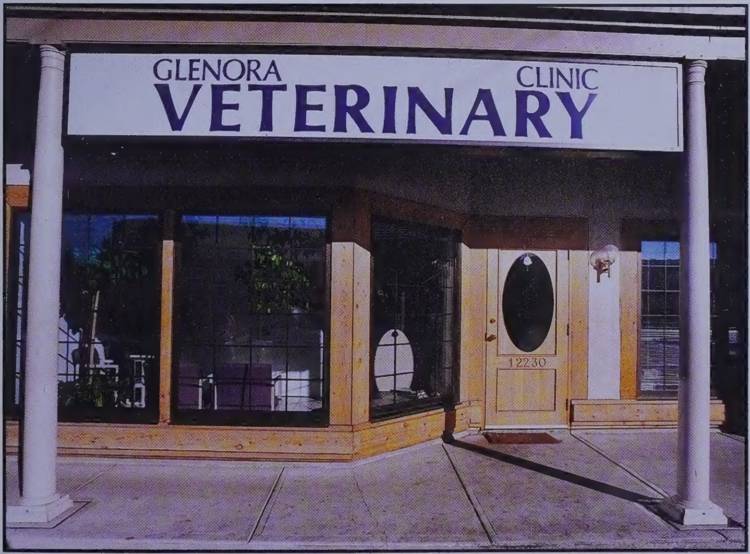
Westgate Business Park is a deluxe suburban office park located in West Edmonton. Its award-winning design and quality construction have attracted premiere tenants such as General Motors Acceptance Corporation of Canada, Borg Warner Canada Acceptance Ltd., and Kraft Limited/Limitée to this nine building, 65,000 square foot complex. Over 30,000 square feet of space were occupied or renewed at premium rates during 1988. Development proposals are being considered for a 12,000 to 15,000 square foot building as the final phase to this project.



Extract of space plan for Kraft Foods.

Reception area for Kraft Foods at Westgate Business Park.

Unique architecture at Fairwoods on 7th will continue to Phase II.



A friendly, pleasant store front at Fairwoods on 7th.

Fairwoods on 7th is a commercial plaza at 107 Avenue and 123 Street in Edmonton. The project's tenant mix and award-winning architecture capture the character of the Groat Estates neighborhood and balance community needs with the advantages of a high traffic location. Phase II of the project will include 10,000 square feet in two buildings adjacent to the east of the existing buildings. Preleasing is proceeding well and the project is expected to be completed in 1989.

Lewis Estates is an 800 acre property in West Edmonton in which Churchill has financial involvement. The land is expected to become the next major community to be added to the City of Edmonton. The approved Area Structure Plan calls for residential subdivisions, commercial districts and an 18-hole golf course.

Blackburn Estates is a proposed residential subdivision in south Edmonton. The approved Area Structure Plan features prestigious ravine lots on Blackmud Creek.

Bonaventure Warehouse is a 104,000 square foot building with dock and ground level loading as well as a rail siding. During 1988, 80,000 square feet of space were occupied or renewed at this multi-tenant facility in northwest Edmonton.

Plaza 97 is a commercial plaza at 97 Street and 128 Avenue in Edmonton. It is located on an outbound primary commuter artery and consists of 20,000 square feet in three buildings. During 1988 the project was completed, occupied, and sold at a profit.

Strathcona Centre includes the South Side Depot for Greyhound Bus Lines. The adjoining commercial space is oriented towards businesses that can benefit from the central arterial location and high site traffic.

Financial Report

The Churchill Corporation
Consolidated Balance Sheet
December 31, 1988

Assets	1988	1987
Current Assets		
Cash and term deposits (Note 2)	$ 3,826,505	$ 5,884,927
Accounts receivable	39,704,107	646,480
Inventories and prepaid expenses	9,238,273	55,873
	52,768,885	6,587,280
Agreements Receivable and Other (Note 3)	4,909,722	2,193,219
Corporate Investments (Note 4)	12,978,903	7,986,293
Property and Equipment (Note 5)	7,830,443	259,457
Rental Properties (Note 6)	17,488,846	15,572,991
Development Properties (Note 7)	9,169,463	9,293,609
Goodwill	2,036,560	–
	$107,182,822	$41,892,849

Liabilities		
Current Liabilities		
Bank indebtedness (Note 8)	$ 7,590,296	$ 1,284,600
Accounts payable	38,340,554	1,874,532
Contract advances and unearned income	4,569,846	–
Current portion of long-term debt	3,004,337	2,628,617
	53,505,033	5,787,749
Long-Term Debt (Note 9)	11,911,825	6,091,858
Deferred Income Taxes	1,931,850	–
Minority Interest	312,979	–
	67,661,687	11,879,607
Contingencies and Commitments (Notes 14 & 15)		
Shareholders' Equity		
Shareholders' Equity (Note 10)	39,521,135	30,013,242
	$107,182,822	$41,892,849

Approved by the Board:

Director   Director

The Churchill Corporation
Consolidated Statement of Income and Retained Earnings
Year Ended December 31, 1988

	1988	1987
Revenue		
Corporate investments (Note 4)	$1,365,304	$1,411,360
Financial and advisory services	840,052	1,079,042
Rental operations	1,935,521	1,619,823
Real estate sales	4,663,956	–
	8,804,833	4,110,225
Expenses		
Rental operations	831,464	657,504
Real estate sales	4,107,435	–
General operating	1,435,998	1,144,033
Interest	1,052,308	1,303,989
	7,427,205	3,105,526
Net Income	$1,377,628	$1,004,699
Basic and Fully Diluted Earnings Per Common Share	$0.09	$0.11

Consolidated Statement of Retained Earnings
Year Ended December 31, 1988

	1988	1987
Balance, Beginning of Year	$2,120,501	$1,371,169
Net Income	1,377,628	1,004,699
Transfer from Revaluation Equity (Note 10(b))	62,598	11,127
Dividends on Preferred Shares	(520,000)	(266,494)
Balance, End of Year	$3,040,727	$2,120,501

The Churchill Corporation
Consolidated Statement of Changes in Financial Position
Year Ended December 31, 1988

	1988	1987
Operating Activities		
Net income	$ 1,377,628	$ 1,004,699
Add (deduct) non-cash items		
Net equity income	(656,073)	(537,331)
Depreciation and depletion	257,745	201,784
Gain on sale of assets	(673,020)	(936,231)
Net change in non-cash working capital	(898,460)	(4,375,396)
Cash used in operating activities	(592,180)	(4,642,475)
Investing Activities		
Common share dividends received	153,942	1,419,416
Proceeds on sale of corporate investments	1,298,946	5,489,275
Proceeds on sale of fixed assets	4,678,956	—
Principal payments of agreements receivable	2,572,288	348,936
Other	208,269	—
Additions to corporate investments	(5,711,249)	(7,595,482)
Additions to fixed assets	(13,704,550)	(2,146,304)
Advances on agreements receivable	(5,288,791)	(1,430,005)
Cash used in investing activities	(15,792,189)	(3,914,164)
Financing Activities		
Issuance of term debt	11,947,952	3,550,688
Issuance of share capital	8,650,260	12,154,503
Term debt repayment	(5,752,265)	(806,448)
Preferred dividends paid	(520,000)	(266,494)
Shares repurchased	—	(299,241)
Cash provided by financing activities	14,325,947	14,333,008
(Decrease) Increase in Cash	(2,058,422)	5,776,369
Cash, Beginning of Year	5,884,927	108,558
Cash, End of Year	$ 3,826,505	$ 5,884,927

The Churchill Corporation
Auditors' Report to the Shareholders

To the Shareholders of
The Churchill Corporation

We have examined the consolidated balance sheet of The Churchill Corporation as at December 31, 1988 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles in Canada applied on a basis consistent with that of the preceding year.

Deloitte Haskins + Sells

Chartered Accountants

Edmonton, Alberta
March 3, 1989

The Churchill Corporation
Notes to the Consolidated Financial Statements
December 31, 1988

1. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada, and reflect the following policies:

Consolidation (Note 13) — The consolidated financial statements include the accounts of all of the subsidiaries and the company's proportionate share of the assets, liabilities, income and expense of joint ventures. Subsidiaries included in these financial statements:

Stuart Olson Construction Ltd. (100%)
Maran Equipment Ltd. (100%)
Insulation Holdings Inc. (80%)
SBEC Holdings Ltd. (100%)
Churchill Investments Inc. (100%)
Mountbatten Investments Ltd. (100%)

The Churchill Corporation
Notes to the Consolidated Financial Statements
December 31, 1988

Inventories — Inventories are recorded at the lower of cost and net realizable value.

Corporate investments — Corporate investments include significant equity interests in operating companies. These interests, where Churchill has significant influence, are accounted for on the equity basis. Where the investee's year end precedes December 31, the company's share of earnings is determined up to the investee's year end, adjusted for the impact of any significant subsequent results. Any goodwill on acquisition is amortized on a straight-line basis over periods not exceeding 40 years.

Rental and development properties — Rental properties are recorded at cost, except for those properties recorded at appraised value as a result of a business combination in August 1981. Development properties are recorded at the lower of cost or net realizable value.

Depreciation on buildings and improvements is provided on a 5% sinking fund basis over periods from 25 to 50 years.

Carrying costs, including property taxes and interest, are capitalized on properties under development during construction and on properties held for development. Rental losses during a reasonable lease-up period are capitalized on newly developed properties. Such costs are capitalized only if the resultant carrying value does not exceed estimated net realizable value.

Leasing costs on commercial properties are capitalized and amortized over the lease period. Initial lease costs on residential properties are capitalized and depreciated with the building.

Income from the sale of properties is recognized when the company has fulfilled all material conditions and has received a down payment that is appropriate in the circumstances.

Property and equipment — Property and equipment are recorded at cost. Buildings, furniture, fixtures and equipment are depreciated using both the diminishing-balance and straight-line methods at the rates indicated in Note 5.

Goodwill — Goodwill represents the excess purchase price paid on the acquisition of subsidiary companies over the value assigned to identifiable net assets acquired and is being amortized on a straight-line basis over a 20 year period.

2. Cash and Term Deposits

Cash and term deposits include $2,316,015 (1987 – $4,295,260) held by a subsidiary registered under the Small Business Equity Corporations Act (Alberta). Under the Act, these funds must be maintained in the subsidiary until applicable provisions of the Act expire in June 1992.

3. Agreements Receivable and Other

	1988	1987
Mortgages, loans and agreements		
Interest to 9%	$ 600,184	$ 406,210
Interest at 9% to 13%	3,981,756	1,868,434
Allowance for doubtful amounts	(55,148)	(81,425)
Deferred charges	147,088	—
Cash value of life insurance	235,842	—
	$4,909,722	$2,193,219

The Churchill Corporation
Notes to the Consolidated Financial Statements
December 31, 1988

4. Corporate Investments

	1988	1987
Equity investments		
Debentures - 12 - 15%		
Interest rates	$ 278,635	$ 278,144
Preferred shares - 8 - 10%		
Dividend rates	5,816,250	3,716,250
Net equity	4,630,952	1,842,671
	10,725,837	5,837,065
Marketable securities		
At cost which approximates market	1,410,184	1,527,469
Oil and gas interests, at cost - net of depletion of $101,516 (1987 - $61,758)	842,882	621,759
	$12,978,903	$7,986,293

Corporate investment revenue consists of:

	1988	1987
Equity income	$ 723,518	$ 427,687
Dividends	398,091	281,384
Gain on sale of securities	117,929	677,969
Other	193,207	44,676
Amortization of goodwill	(67,441)	(20,356)
	$1,365,304	$1,411,360

Unamortized goodwill included in equity investments amounted to $321,269 (1987 - $395,693). Preferred shares have cumulative dividend rights and are redeemable from profits of the investees. Preferred dividends in arrears, which have not been recognized in the accounts, amounted to $197,910 (1987 - $65,484).

5. Property and Equipment

	1988			1987
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	$ 895,126	$ –	$ 895,126	$ –
Buildings and improvements (4-10%)	2,406,031	529,571	1,876,460	–
Construction equipment (20-30%)	3,307,701	1,588,687	1,719,014	–
Rental equipment (12%)	2,108,025	363,729	1,744,296	–
Mobile equipment (10-30%)	1,963,246	1,106,383	856,863	87,591
Furniture and fixtures (10-20%)	1,232,830	494,146	738,684	171,866
	$11,912,959	$4,082,516	$7,830,443	$259,457

6. Rental Properties

	1988			1987
	Cost or Recorded Value (Note 10(b))	Accumulated Depreciation	Net Book Value	Net Book Value
Commercial	$15,516,036	$604,054	$14,911,982	$12,972,825
Residential	2,781,851	204,987	2,576,864	2,600,166
	$18,297,887	$809,041	$17,488,846	$15,572,991

7. Development Properties

	1988	1987
Under development	$2,084,857	$3,432,113
Held for future development	8,000,640	6,777,530
	10,085,497	10,209,643
Less provision for decline in value	916,034	916,034
	$9,169,463	$9,293,609
Interest capitalized to development properties	$ 148,198	$ 30,631

8. Bank Indebtedness

Bank indebtedness is secured by floating charge debentures, general assignments of book debts and by specific assets.

The Churchill Corporation
Notes to the Consolidated Financial Statements
December 31, 1988

9. Long-Term Debt

	1988	1987
Equipment finance contracts interest at prime plus 1¾%	$ 1,323,307	$ —
Mortgages payable at interest rates ranging from 8.75% - 11.50%	4,255,280	5,531,835
Bank loans at interest rates ranging from prime − ½% to prime + 1¾%	6,062,575	—
Convertible debenture - 8%	3,150,000	3,188,640
Other	125,000	—
	14,916,162	8,720,475
Less current portion	3,004,337	2,628,617
	$11,911,825	$6,091,858

The finance contracts are secured by various automotive and rental equipment included in fixed assets and inventory.

Mortgages are secured against specific rental properties.

Bank loans are secured by floating charge debentures, general assignment of book debts and by specific assets.

The convertible debentures are due on December 31, 1991 and are convertible to Class A common shares at $3.00 per share at the date of maturity.

Interest cost on long-term debt during the year was $714,608 (1987 - $756,084).

Estimated principal amounts due in each of the next five years are as follows:

1989	$3,004,337
1990	2,121,632
1991	4,125,431
1992	1,238,654
1993	651,373

10. Shareholders' Equity

	1988	1987
Share capital (Note 10a)	$32,448,172	$23,797,912
Retained earnings	3,040,727	2,120,501
Revaluation equity (Note 10b)	4,032,236	4,094,829
	$39,521,135	$30,013,242

(a) Share capital

Authorized

6,500,000 Series A 8% cumulative redeemable first preferred shares. Redemption, at $1.00 per share, is based on 20% of net cash flow beginning in 1992 with full redemption by December 31, 1995.

1,923,077 Series A 8% cumulative redeemable second preferred shares. Redeemable at $2.60 per share on December 31, 1997.

3,500,000 first preferred shares issuable in series with rights set by the directors.

8,086,923 second preferred shares issuable in series with rights set by the directors.

110,000,000 Class A common shares.

Issued

	Shares	Share Capital	Contributed Surplus	Total
Series A 8% cumulative first preferred shares	6,500,000	$ 6,500,000	$ —	$ 6,500,000
Series A 8% cumulative second preferred shares Issued during the year from treasury and balance, end of year	1,923,077	5,000,000	—	5,000,000
Total preferred shares		$11,500,000	—	$11,500,000
Class A common shares				
Issued, beginning of year	9,324,607	$11,502,325	$ 6,795,587	$18,297,912
Add				
Issued from treasury	3,672,254	9,545,260	—	9,545,260
	12,996,861	21,047,585	6,795,587	27,843,172
Less				
Issued shares held by acquired subsidiary	(344,342)	(344,342)	(550,658)	(895,000)
Issued shares held by affiliate	(200,000)	(200,000)	(800,000)	(1,000,000)
Shares issued subject to share loan	(1,923,077)	(5,000,000)	—	(5,000,000)
Balance, end of year	10,529,442	15,503,243	5,444,929	20,948,172
		$27,003,243	$ 5,444,929	$32,448,172

10. Shareholders' Equity (continued)

All shares issued during the year were for non-cash consideration.

Issued for Shares of Subsidiaries (Note 13)	$9,415,260
Issued for Equity in Rental Properties	130,000
	$9,545,260

Share loan

As part of the share exchange for Stuart Olson Construction Ltd., (see Note 13) Churchill provided a $5,000,000 loan to 393738 Alberta Ltd., used to acquire 1,923,077 Class A common shares of Churchill at that value. The loan is due December 31, 1997 and if not paid on that date, the shares will be returned to Churchill for cancellation. The common shares were issued to provide voting rights in Churchill equivalent to the voting rights held by the former shareholders of Stuart Olson Construction Ltd.

393738 Alberta Ltd. has granted options to acquire the 1,923,077 Churchill common shares at $2.60 per share, which options must be exercised by the holders in five equal instalments, beginning on December 31, 1993, if 400,000 Churchill common shares trade above $3.40 for the preceding 60 trading days. Proceeds of the options must be used to repay the Churchill loans. The options may be exercised at any time by the holder, but expire on December 31, 1997.

The Board of Directors will be presenting a Special Resolution to the annual shareholders meeting to grant voting rights to the Series A second preferred shares. If the special resolution is passed the 1,923,077 shares will be returned to Churchill for cancellation in full settlement of the loan, and the options issued by 393738 Alberta Ltd. will become direct options of Churchill.

Options and conversion rights

Rights to acquire 4,692,589 Class A common shares are outstanding at prices ranging from $2.56 to $5.00 exercisable until December 31, 1992.

The company has the right to cause a preferred shareholder to convert up to $1,500,000 of the Series A first preferred shares into common shares at a price ranging from $2.60 to $3.60 per share if the average trading price of the common shares exceeds the conversion price by 30% for twenty consecutive trading days.

(b) Revaluation equity

Revaluation equity arose in August 1981 through valuation at fair market value of the rental and development properties combined in the multiple mergers on that date. The amount is transferred to retained earnings as an offset to depreciation and upon realization through sale.

11. Related Party Transactions

As at December 31, 1988 the following balances were outstanding or transactions occurred with affiliated companies, directors and their controlled companies:

	1988	1987
Amounts receivable	$1,727,412	$2,259,045
Amounts payable	$1,600,136	$1,287,022
Management and advisory fees	$ 325,857	$ 26,937
Construction costs on development properties	$ 305,323	$ 549,365

The above amounts arise in the normal course of business and are on terms similar to transactions with non-related parties.

The Churchill Corporation
Notes to the Consolidated Financial Statements
December 31, 1988

12. Income Taxes

Income taxes have not been provided for because, after deduction of dividends, equity income and other non-taxable items, the company has no taxable income. Losses available to reduce future income for tax purposes total approximately $2,392,000 and expire from 1990 to 1995.

13. Acquisitions

On December 31, 1988, the company acquired Stuart Olson Construction Ltd. (a company controlled by a director) and its subsidiary companies, all of which are in the construction industry. The acquisition has been accounted for as a purchase, and the net assets acquired at assigned values and the financing of these acquisitions are summarized as follows:

Current assets	$ 49,501,610
Corporate investments	4,156,807
Agreements receivable and other	1,004,557
Property and equipment	7,006,489
Rental properties	500,000
Development properties	1,100,000
Goodwill	2,036,560
	65,306,023
Liabilities assumed including $312,979 of minority interest	(55,890,763)
Net assets acquired	$ 9,415,260
Financed by:	
Issuance of 1,699,177 Class A common shares	$ 4,415,260
Issuance of 1,923,077 second preferred shares	5,000,000
	$ 9,415,260

As this acquisition was effective as at December 31, 1988 no operating results of the acquired companies are included in the consolidated operating results.

14. Contingencies

(a) The company is contingently liable for the repayment of indebtedness of affiliated companies in the amount of $1,966,000 at December 31, 1988.

(b) A subsidiary of the company is required to maintain 70% of its equity capital in eligible investments until June 1992 in order to avoid the recapture provisions of the Small Business Equity Corporations Act.

(c) Subsidiary companies are defendants in lawsuits involving various amounts. Management is of the opinion that the results of these actions should not have any material effect on the financial position of the company.

(d) Revenue Canada has re-assessed a subsidiary company's taxable income in the years 1979 to 1982. The company has filed notice of objection to those re-assessments. The eventual outcome of these assessments cannot be determined at this time and therefore no amounts have been included in these financial statements.

15. Lease Commitments

The company leases certain equipment, vehicles and office premises. Under existing terms of the leases, future minimum lease payments over the next five years are:

1989	$562,435
1990	536,581
1991	411,027
1992	317,109
1993	78,858

16. Comparative Figures

Certain of the comparative balances for 1987 have been restated to conform with the current year's presentation.

Corporate Directory

Board of Directors

Jack N. Agrios, Q.C.
Gary G. Campbell, Q.C.
R. Gary Elliott
Brian A. Felesky, Q.C.
Denis J. Horne
Robert V. Lloyd, Q.C.
Allan S. Olson
Robert G. Peters
John L. Schlosser
David D. Schuster
R. Alexander (Sandy) Slator
Ernest F. Stevens

Senior Management Personnel

Gary G. Campbell, Q.C.
Chairman

Allan S. Olson
President and
Chief Executive Officer

Ernest F. Stevens
Vice President, Real Estate

Richard B. Innes
Vice President, Finance

Emile L. Beaudry
Vice President,
Corporate Investments

John Boyko
Vice President

James E. Devaney
Vice President

Garry B. Ollis
Controller

Legal Counsel

Cook, Duke, Cox, Tod & Kenney
Milner & Steer

Auditors

Deloitte Haskins + Sells

Transfer Agent

The National Trust Company
10072 - Jasper Avenue
Edmonton, AB T5J 1V8

The National Trust Company
1008 - 324 - 8th Avenue S.W.
Calgary, AB T2P 3B2

Bankers

Treasury Branch

Canadian Imperial Bank
of Commerce

Exchange Listing

Alberta Stock Exchange
Trading Symbol: CUQ

Executive Offices

2300 Scotia Place
10060 - Jasper Avenue
Edmonton, AB T5J 3R8
Telephone: 424-8230
Telecopier: 425-6822